

Message Text

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SUBJ: CENTRAL BANK GOVERNOR REPORTS ON FIRST QUARTER FINANCIAL
AND ECONOMIC DEVELOPMENTS

SUMMARY. THE FIRST QUARTER OF 1976 REGISTERED AN OVER-ALL FOREIGN
EXCHANGE TRANSACTIONS DEFICIT OF \$166 MILLION, SLIGHTLY LARGER
THAN THE \$129 MILLION DEFICIT FOR THE SAME PERIOD OF 1975.

IN A QUARTERLY REPORT TO THE PRESIDENT, CB GOVERNOR LICAROS
ATTRIBUTED THE DEFICIT TO EFFECTS OF EXTERNAL RECESSIONARY
FORCES ON MERCHANDISE TRADE AND SHORTFALLS IN SUGAR EXPORTS.
DESPITE THE IMBALANCE, THE PESO APPRECIATED, WITH THE INTER-
BANK RATE FOR MARCH AVERAGING 7.458 PER U.S. \$1.00. EXTERNAL DEBT
OF THE PHILIPPINES AMOUNTED TO \$4,244 MILLION AS OF MARCH 31, 1976,
UP BY 10 PERCENT OVER DECEMBER 31, 1975. LICAROS TAKES AN OPTIM-
ISTIC VIEW OF THE FUTURE, BASED ON EVIDENCE OF ECONOMIC RECOVERY
IN OTHER COUNTRIES, EXPECTED INCREASES IN THE COUNTRY'S MAJOR
EXPORTS, AND INDICATIONS OF COMMERCIAL VIABILITY OF PALAWAN OIL
DRILLINGS. WHILE THE PICTURE MAY INDEED IMPROVE DURING THE
BALANCE OF THE YEAR, FIRST QUARTER FIGURES POINT TO ANOTHER
DIFFICULT YEAR FOR BALANCE OF TRADE AND BALANCE OF PAYMENTS.

END SUMMARY

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1. CENTRAL BANK (CB) GOVERNOR GREGORIO LICAROS SUBMITTED REPORT TO PRESIDENT MARCOS ON PHILIPPINE ECONOMIC AND FINANCIAL DEVELOPMENTS DURING FIRST QUARTER OF 1976. OF PRIMARY INTEREST ARE FIGURES ON BALANCE OF PAYMENTS. MERCHANDISE EXPORT RECEIPTS WERE \$412 MILLION, 34 PERCENT LOWER THAN FOR SAME PERIOD OF 1975. IMPORTS ARE DOWN BY 4 PERCENT TO \$751 MILLION, LEAVING A MERCHANDISE TRADE DEFICIT OF \$339 MILLION FOR THE FIRST QUARTER. THIS, ACCORDING TO LICAROS, WAS LARGELY THE EFFECT OF RECESSION IN THE ECONOMIES OF TRADING PARTNERS AND SHORTFALLS IN SUGAR EXPORTS AS A RESULT OF GOVERNMENT POLICY TO RESTRAIN SHIPMENTS IN EXPECTATION OF BETTER PRICES. NON-MERCHANDISE TRADE AND TRANSFERS NETTED \$28 MILLION AND \$63 MILLION RESPECTIVELY, COMPARED WITH THE CORRESPONDING 1975 FIGURES OF \$108 MILLION AND \$62 MILLION. IMPROVEMENTS IN NON-MONETARY CAPITAL, BOTH LONG-TERM AND SHORT-TERM, PRODUCED A NET INFLOW OF \$85 MILLION. THE OVER-ALL TRANSACTIONS DEFICIT AMOUNTED TO \$166 MILLION, 29 PERCENT HIGHER THAN THE \$129 MILLION DEFICIT RECORDED DURING FIRST QUARTER OF 1975. NET COMPENSATORY FINANCING BY THE CB AMOUNTING TO \$177 MILLION FUNDED THE DEFICIT, LICAROS REMARKED, ALLOWING A MODEST RISE IN THE INTERNATIONAL RESERVES.

2. NOTWITHSTANDING THE UNFAVORABLE MERCHANDISE TRADE IMBALANCE, THE PESO APPRECIATED SLIGHTLY. THE INTER-BANK RATE MOVED FROM A LOW OF 7.500 IN OCTOBER, 1975 TO 7.458 TO A DOLLAR FOR MARCH. LICAROS ATTRIBUTED THIS DEVELOPMENT TO (A) THE HIGH LEVEL OF INTERNATIONAL RESERVES (\$1,100 MILLION); (B) THE EXPECTED INCREASE IN FOREIGN EXCHANGE RECEIPTS FROM FUTURE SUGAR EXPORTS; (C) THE CB'S ABILITY TO COVER THE DEFICIT WITH EXISTING STANDBY LINES OF FINANCING AND EXPECTATIONS OF STANDBY ARRANGEMENTS WITH THE IMF; (D) THE REPORTED OIL SHOWS OFF PALAWAN; (E) THE PHILIPPINES' CREDIT-WORTHY IMAGE ABROAD.

3. TOTAL FOREIGN DEBTS OF THE PHILIPPINES AS OF MARCH 1976 STOOD AT \$4,244 MILLION, EXPANDING BY 10 PER CENT FROM THE END-1976 LEVEL OF \$3,842 MILLION. TOTAL AVAILMENTS OF \$851 MILLION AND ADJUSTMENTS OF \$23 MILLION EXCEEDED REPAYMENTS OF \$472 MILLION. LICAROS REPORTED THAT THE BULK OF THE QUARTER'S TRANSACTIONS CONSIST OF REVOLVING CREDITS.

4. OTHER FEATURES OF CB REPORT: (A) CONSUMER PRICES IN MANILA LIMITED OFFICIAL USE

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INCREASED AT AN ANNUAL RATE OF 4.6 PERCENT DURING THE QUARTER; (B) MONEY SUPPLY GREW AT AN ANNUAL RATE OF 8 PER CENT; (C) DOMESTIC CREDITS ROSE AT AN ANNUAL RATE OF 40 PERCENT, PRIVATE SECOTR CREDITS BY 21 PERCENT, AND PUBLIC SECTOR CREDITS BY 246 PERCENT; (D) MONEY MARKET RATES WERE DAMPENED BY NEW CB CIRCULARS ISSUED TO RAISE YIELDS ON DEPOSITS AND LOANS OF LONGER MATURITIES AND MINIMIZE THE SPREAD BETWEEN REGUALR BANK DEPOSITS/CREDITS AND MONEY MARKET RATES;

THE STOCK MARKET MEANWHILE HAD BEEN EXPERIENCING FRENETIC ACTIVITY AS A RESULT OF FAVORABLE FINDINGS IN THE PALAWAN OFFSHORE DRILLINGS; (E) CASH OPERATIONS OF THE NATIONAL GOVERNMENT SHOWED A PESO 140.4 MILLION DEFICIT IN CONTRAST TO LAST YEAR'S SURPLUS OF PESO 214.8 MILLION DURING THE SAME QUARTER.

5. LICAROS CONCLUDED HIS REPORT ON AN OPTIMISTIC NOTE, CITING EVIDENCE OF ECONOMIC RECOVERY IN OTHER COUNTRIES. HE SEES PROMISE ON THE WXPOR SIDE, WITH FIRING OF COPPER PRICES AND SUGAR CONTRACTS QUOTE WITH NEW TRADING PARTNERS IN THE SOCIALIST BLOCK UNQUOTE.

LICAROS ALSO EXPRESSED HOPE THAT PALAWAN OIL DRILLINGS, WHICH QUOTE INDICATE COMMERCIAL VIABILITY UNQUOTE, MIGHT ALLEVIATE THE FOREIGN EXCHANGE BURDEN OF OIL IMPORTS.

COMMENT. THE CB, IN CONJUNCTION WITH THE INTERNATIONAL MONTARY FUND (IMF) HAS PROJECTED A TRADE DEFICIT OF \$1,113 MILLION FOR 1976, A CURRENT ACCOUNT DEFICIT OF \$890 MILLION AND AN OVER-ALL DEFICIT OF \$265 MILLION. THESE DEFICITS, IF DISTRIBUTED EVENLY OVER 1976, WOULD TRANSLATE TO FIRST-QUARTER DEFICITES OF \$278 MILLION ON TRADE, \$222 MILLION ON CURRENT ACCOUNT, AND \$66 MILLION OVER-ALL. ACTUAL FIRST QUARTER PERFORMANCE FELL CONSIDERABLY SHORT OF THESE BENCH MARKS, AND THE PICTURE WILL HAVE TO IMPROVE MARKEDLY DURING THE REMAINDER OF THE YEAR IF THE PROJECTIONS ARE TO BE REALIZED. LICAROS IS ENTITLED TO SOME OPTIMISM ON THIS COUNT, AS U.S. AND JAPANESE RECOVERIES SHOULD BEGIN TO PULL UP PHILIPPINE EXPORT RECEIPTS IN THE COURSE OF THE YEAR, BUT IT SEEMS UNLIKELY THAT A TURNAROUND WILL BE SUFFICIENTLY PRONOUNCED. RECENT SUGAR SALES TO THE USSR AND US REFINERS ALSO IMPROVE THE RECEIPTS. PICTURE, EVEN THOUGH CURRENT SUGAR PRICES ARE RELATIVELY LOW. ON BALANCE, RESULTS OF THE FIRST QUARTER IN THE EXTERNAL SECTOR ARE NOT ENCOURAGING, AND 1976 COULD BE ANOTHER GLOOMY YEAR FOR LIMITED OFFICIAL USE

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BALANCE OF PAYMENTS, END COMMENT.
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